The Great Atlantic & Pacific Tea Company, Inc.
1972 Annual Report

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Annual Report for the Fiscal Year Ended February 24, 1973

Index

Comparative Highlights

(Dollars in thousands, except per share figures)

	For the 52 weeks ended in **February 1973**	February 1972
Sales	**$6,368,876**	$5,508,508
Net income (loss)	**(51,277)**	14,619
Per share	**(2.06)**	.59
Percent of sales	**(.81%)**	.27%
Cash dividends	**14,925**	29,229
Per share	**.60**	1.175

To Our Stockholders

One of the most significant developments in the 113-year life of The Great Atlantic & Pacific Tea Company, Inc., was the winning-back of customers in huge numbers last year through the A&P WEO (Where Economy Originates) program.

The success of this effort is demonstrated by the favorable impact the WEO concept had on A&P's sales, on a quarterly basis as well as for the full year:

Quarter Ended	Gains in Sales Over Previous Year	Per Cent Increase
May 27, 1972	$122,966,000	9.0
Aug. 26, 1972	214,413,000	15.6
Nov. 25, 1972	239,284,000	17.5
Feb. 24, 1973	283,705,000	20.3
Full Year Gain in Sales:	$860,368,000	

As we show in more complete detail in the following pages, the A&P WEO program was designed to recapture the sales momentum and profitability that all of us know A&P should have. A&P's WEO concept is now a proven part of our merchandising policy and will be of continuing importance in A&P's future.

While the WEO program was going forward, A&P was making good progress in other efforts to win and hold new customers. Last year we closed 404 small, outmoded stores and opened 80 large new ones in more convenient locations. Moreover, we modernized 211 existing stores and at 56 of them we added substantial amounts of selling space. Important improvements were also made in the distribution system that supports our stores.

All these programs are continuing to receive heavy emphasis in the current fiscal year. A&P's new capital improvements budget calls for the commitment of $100,000,000 in contrast to the $62,800,000 we allocated last year.

Against the background of all these positive developments, including the 15.6 per cent increase in A&P's sales to $6,368,876,000 during the fiscal year ended February 24, 1973, from $5,508,508,000 in fiscal 1971, there is the fact of the $51,277,000 loss or $2.06 per share last year, in contrast to net income of $14,619,000 or $0.59 per share for the fiscal year ended February 26, 1972.

However, the trend in our profit and loss picture is encouraging.

In the fiscal year ended February 26, 1972 our profits were on a declining path and we sustained an actual loss in the third and fourth quarters. The conversion to the WEO program, with its heavy introductory costs, resulted in anticipated substantial losses in the first two quarters of the past fiscal year but there was a marked improvement in the last half when the impact of the WEO

program began to manifest itself:

Quarter	Profit or Loss Year Ended February 26, 1972	Profit or Loss Year Ended February 24, 1973
1st	$11,544,000	($20,540,000)
2nd	5,792,000	(21,108,000)
3rd	(1,111,000)	(8,371,000)
4th	(1,606,000)	(1,258,000)
Total	$14,619,000	($51,277,000)

A&P's present priorities are to return to profitability and to resume the payment of cash dividends while maintaining the upward trend in sales. While I can give no indication at this time how soon these goals will be achieved, the momentum we regained last year and the programs we are emphasizing this year give all of us reason to expect A&P's performance to be more impressive in the future.

The primary reason for last year's loss was the extensive investment required to recover the patronage of customers through the A&P WEO program. Expenses involved in this effort included heavy introductory advertising costs, brightening-up of stores, resetting of merchandise for shopper convenience and operating efficiency, and re-marking literally thousands of items to reflect new, lower prices. Returning A&P to its traditional role of being able to offer quality food at lower prices through high volume required us to sell at margins below the ones of recent years.

In judging A&P's performance last year, it is important to consider what our future might have been if we had not taken decisive action. A&P operated at a loss during the second half of fiscal 1971, and there was every reason to expect the declining trend to continue unless we took bold steps to turn our entire system around in the shortest possible time. While the cost of this massive effort was high, it is now behind us and the outlook for fiscal 1973 is greatly improved.

Several management changes during the year should be noted. Mr. M. D. Potts, Vice President and Secretary, was elected a Director in October, 1972. Messrs. J. A. Zeigler and N. F. Whittaker, both corporate Senior Vice Presidents and Directors, retired. Mr. Zeigler was succeeded as President of the Western Region by Mr. R. J. Murray, and Mr. Whittaker was succeeded as President of the Eastern Region by Mr. W. J. F. Dailey. Messrs. Murray and Dailey were elected corporate Vice Presidents.

In closing, I wish to express deep gratitude to A&P stockholders, customers, and employees for the understanding and support they have given us during a most difficult business year.

W. J. Kane

W. J. Kane
Chairman

Executive session in office of William J. Kane (seated), chairman;
includes (left to right) William Corbus, vice chairman; Edward A. LePage, vice chairman; and Robert F. Longacre, president.

Background: A&P in a Changing Industry

The Great Atlantic & Pacific Tea Company, Inc. has been on the American business scene since 1859. Today the local A&P store is an institution in over 2,600 cities, towns, and villages in 34 states, the District of Columbia, and two Canadian provinces. Few organizations have meant as much—in practical terms—to so many millions of men and women as A&P.

Because of its local flavor, A&P tends to be judged by its stores, or even those of its competitors, rather than as a corporate entity.

But there is a great deal more to A&P.

It would be unrealistic, perhaps even impossible, for any one person to visit every one of the approximately 3,900 A&P stores. It would take more time than most people would like to spend to go through a fraction of our facilities—for example, all 22 of A&P's bakeries.

We would like everyone to have a better basic understanding of A&P. Reaching toward that goal we therefore are presenting in these pages information that will show:

- how changing conditions in food retailing have affected A&P in recent years;
- how the A&P WEO (Where Economy Originates) program of tonnage recovery has brought about a sharp turnaround in volume;
- how A&P has been making a major transition to larger stores in more convenient locations, and
- what these and other programs mean to our customers and our shareholders.

In recent years, and for a number of reasons, food retailing has been going through a series of important changes. Some of these developments have been broad: the movement to the suburbs, adoption of new life styles, and rising income and living costs. Others have been more directly applicable to A&P—competitive conditions, including larger stores and more varied product lines, and consumer food purchasing patterns, to name a few.

The food industry has been troubled by certain challenging facts—particularly in the 1967-72 period, years in which inflation has been a severe and universal condition. The industry has seen disposable personal incomes rising steadily from $546.3 billion in 1967 to $795.1 billion in 1972, an increase of about 46 per cent. Total expenditures for food were also moving upward—but not as rapidly—from $93.9 billion in 1967 to $124.6 billion last year, a gain of approximately 33 per cent.

Actually, during this time consumers were spending a smaller percentage of their disposable personal income in each year but one (1970) for food:

"In recent years, and for a number of reasons, food retailing has been going through a series of important changes. Some of these developments have been broad. ...Others have been more directly applicable to A&P...."

***Company brands** enhance A&P's image as a quality food merchant. A&P offers one of the largest and most diverse lines of private label products with substantial savings to the customer. The labels in this photograph are known to millions of American consumers.*


Sail
ahoy
DETERGENT
LEMON
Our Own
LOOSE TEA
BLUE HEAVY DUTY
Sail
BRIGHTER WHITER CLOTHES
DETERGENT
A&P
handi-whip
ANN PAGE
CREAM OF MUSHROOM
SOUP
TOMATO RICE
SOUP
PeAnuT BuTTer
COLE SLAW
59¢
Paprika
GROUND TO ORDER
EIGHT O'CLOCK COFFEE
100% BRAZILIAN COFFEES
IT'S DATED FOR FRESHNESS
Instant A&P
NONFAT DRY MILK
Fortified with Vitamins A and D
makes 12 quarts
DISSOLVES INSTANTLY even in ice water
EXTRA GRADE
NET WT. 38.4 OZ. (2 LB. 6.4 OZ.)
DISSOLVES INSTANTLY
Red Wine Vinegar & Oil
Dressing
EIGHT O'CLOCK FREEZE-DRIED COFFEE
JANE PARKER
VANILLA ICED
DEVILS FOOD
CUP CAKES
Birthday Cake
HAPPY BIRTHDAY
CHOPPED CHIVES
ANN PAGE
PARSLEY FLAKES
WHOLE CLOVES
BAY LEAVES
Paprika
EIGHT O'CLOCK
Caffein Free

Calendar Year	Food At Home	Food Elsewhere	Total Food
1967	13.6%	3.6%	17.2%
1968	13.4	3.5	16.9
1969	12.9	3.5	16.4
1970	13.1	3.5	16.6
1971	12.4	3.4	15.8
1972	12.3	3.4	15.7

In these same years, A&P's share of the food business in the United States was declining from 6.3 per cent in 1967 to 5.1 per cent in 1971. Even more disturbing to A&P were trends in two other critically important indicators. Tonnage (gross weight of merchandise sold) was declining, and costs of doing business were rising:

Year Ended in February	Tonnage Moved Index 1967 = 100	Cost of Doing Business Index 1967 = 100
1967	100.0	100.0
1968	98.0	102.8
1969	93.4	104.7
1970	93.2	111.7
1971	86.5	114.2
1972	80.5	116.4

With A&P's share of industry volume declining, tonnage dropping, and costs of doing business climbing, profits nosed downward in fiscal 1971. For the last two quarters of the fiscal year ended February 26, 1972, A&P reported a deficit of $2,717,000, and for the full year, net earnings were only $14,619,000 as compared with $50,129,000 the previous year.

But these statistics are indications of only a few of the trends adversely affecting A&P. Since A&P had been in business for many years, a number of our stores were old and small. In many places our competitors moved rapidly to establish new stores in suburban shopping areas.

The original idea that made the company great was that at A&P, consumers would find the most good food for their money. Long before discount stores became popular, generations of people bought their food at A&P because they could be confident of quality while they enjoyed the lowest prices. But as sales slackened and costs of doing business moved higher, A&P lost much of its price advantage—and with it, a great many customers.

As fiscal 1971 neared an end, it was obvious A&P would have to take drastic action to bring customers back into our stores, regain lost momentum, and return to profitable operation. The most dramatic of these actions was the company-wide WEO program.

Regional presidents chat informally prior to meeting at general offices. Presidents of A&P's five regions (left to right) are Percy A. Smith, Southern Region; James S. Kroh, Central Region; Robert J. Murray, Western Region: Robert L. Spencer, Southwestern Region and William J. F. Dailey, Eastern Region.

WEO: Return To Basics

During 1972 A&P returned to the basic principles on which the company was founded by converting all company stores to the WEO concept of low prices with no sacrifice in quality.

This was an undertaking unprecedented in modern American merchandising. In nine months, A&P changed the character of more than 3,900 stores.

In existing stores, the WEO conversion process involved sprucing up buildings outside and inside, resetting items for greater shopper convenience and operating efficiency, as well as marking new and lower prices on thousands of products. Additional personnel were hired and trained. A&P used extensive print and broadcast advertising to bring people back to "Where Economy Originates."

A&P's commitment to the WEO concept was made after several years of carefully conducted test programs. These programs included A&P Discount Food Stores, A&P A-Marts, and Warehouse Economy Outlets. They all had the same objective: to achieve recovery in tonnage volume. For this volume is essential to the growth of a retail business. Without it, attrition sets in. A new course was necessary to maintain our position as leader of the industry. The A&P WEO store that evolved incorporated the best features of the test stores plus A&P's traditional standards of quality and service. Management decided in January 1972 to adopt the A&P WEO store for the entire system. This decision was of major moment to the future of the Company and was made only after the alternative courses and projected results were thoroughly analyzed.

The cost of converting A&P's stores to the WEO operation was very high and could have been even higher if the program had been stretched over a longer time than the February—October period. All new stores opened in 1972 also were operated as WEO outlets.

Among the first year's results:

- A&P's sales—roughly $5.5 billion for the year ended February, 1972—rose to $6.4 billion, a gain of over $860 million in 12 months.
- Tonnage increased by 11 per cent—index of 89.5 (1967 = 100).

The resurgence in volume is an achievement of great importance. With the sales recovery now definitely under way, A&P is again positioned to maintain the principle of offering the best food at the lowest possible prices.

However, sharp increases in retail food prices in the early months of 1973 have caused some to question whether WEO is just another sales "gimmick." Not so. It's merely that the prices A&P pays to its suppliers have been rising faster than many consumers realize, as the following sample wholesale food cost index numbers show:

	Early December	Early January	Early February	Early March
Flour	100.0	102.6	96.3	104.2
Eggs	100.0	114.0	90.0	114.0
Coffee	100.0	100.5	101.6	108.0
Eastern Potatoes	100.0	119.3	115.8	138.6
California Navel Oranges	100.0	118.0	130.0	130.0
Green Cabbage	100.0	114.3	107.1	164.3
Beef Hindquarters	100.0	116.4	122.7	125.3
Lamb	100.0	105.2	122.6	138.3
Pork Loins	100.0	132.4	140.7	144.4
Bacon	100.0	108.1	116.2	113.2
Fryers	100.0	114.3	114.3	150.0
Turkeys	100.0	105.1	100.0	105.1

With wholesale food costs rising as much as they have in such a short period, consumers may well wonder how A&P's retail prices compare with those in other stores. Apparently, many consumers found more good food for their money at A&P, for sales trends continue to show increases over comparable year-earlier periods.

Dramatic though A&P's total conversion of its stores to WEO units certainly was, other efforts were initiated and are being continued to achieve additional sales volume. An example is A&P's program for opening larger new stores in more convenient locations and modernizing and expanding others.

"A&P's commitment to the WEO concept was made after several years of carefully conducted test programs....The A&P WEO store that evolved incorporated the best features of the test stores plus A&P's traditional standards of quality and service."

"Plans for the current fiscal year call for opening 124 new stores having an average area of 24,600 square feet and...225 stores have been selected for modernization and/or expansion with planned addition of a total of 1,050,000 square feet."


RICH,
ANN
A&P
WEO
WHERE ECONOMY ORIGINATES
IMPORTANT...FOR YOU!
A & P POLICY:
Always do what is honest and fair for every customer.
RAINCHECK:
If an advertised special is ever sold out ask the Manager for a Raincheck. It entitles you to the same special price the following week. Or if you wish we'll give you a comparable item at the same special price.
GUARANTEE:
A&P offers an unconditional
tee. No matter what it is,
if A&P sells it

Development: Toward a Greater A&P

A&P's store development program has attracted the attention of people in communities where new stores have been opened, but the scope of this effort has been larger and the pace has been faster than many observers realize.

The table elsewhere in this section gives the details of what A&P has accomplished toward the goal of bringing the entire store system to much higher standards of convenience, attractiveness, and operating efficiency. Briefly, during the last five years A&P has closed 1,306 outmoded stores having an average area per store of 9,197 square feet and has opened 522 new ones whose area per store averages 17,597 square feet.

Another point: our newest stores are even larger. The 80 new stores A&P opened during fiscal 1972 (all WEO's) had an average area of 23,340 square feet, while the 404 stores that were closed last year had an average area of only 9,274 square feet. Locations of stores opened last year are shown on page 12.

Plans for the current fiscal year call for opening 124 new stores having an average area of 24,600 square feet and closing 420 old stores whose average area is 9,300 square feet.

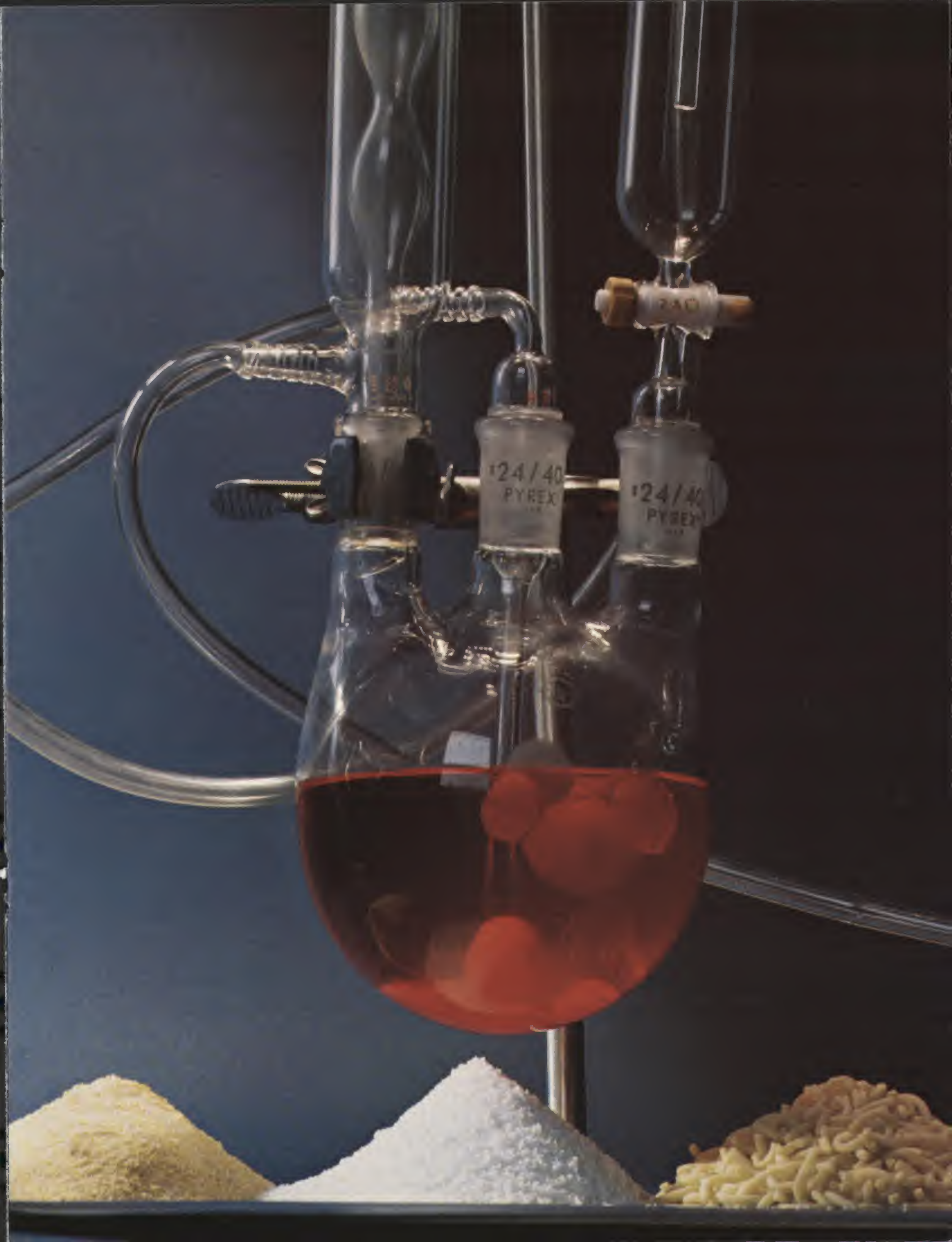
Moreover, A&P's enlargement and modernization program for existing stores continues to have a high priority. Progress in this program is more difficult to measure than openings or closings of stores, but an idea of what has been accomplished can be gained from these facts: since late February, 1968, and through the close of our most recent fiscal year, A&P has upgraded 2,034 existing stores and has expanded the area of 249 of these stores by a total of 1,373,000 square feet. For the current fiscal year 225 stores have been selected for modernization and/or expansion with planned addition of a total of 1,050,000 square feet.

Along with these programs to attract an increasing number of shoppers to A&P stores, impressive progress has been made in improving the efficiency of the warehouses and other elements of the distribution system that support A&P's food retailing operations. A&P's long range strategy calls for greater centralization through use of distribution centers such as the automated facilities already operating in Toronto and Edison Township, New Jersey. Further advances in improving the productivity of A&P's distribution system are planned for the current fiscal year.

A&P's total capital improvement budget for the current fiscal year involves the commitment of $100 million:
• about $46 million—new stores,
• $24 million—modernization and/or expansion of existing stores,

Year Ended in February	New Stores Opened	Average Area Per New Store	Total Area Opened	Old Stores Closed	Average Area Per Store Closed	Total Area Closed
1969	169	13,231	2,236,039	180	8,340	1,501,200
1970	99	15,144	1,499,256	237	9,633	2,283,000
1971	70	18,798	1,315,860	218	7,798	1,700,000
1972	104	21,800	2,267,200	267	10,413	2,780,308
1973	80	23,340	1,867,220	404	9,274	3,746,739
	522	17,597	9,185,575	1,306	9,197	12,011,247

Quality control is assured by continuous testing of A&P's own products as well as those of its suppliers. The company maintains modern laboratories at its New York headquarters and at production and processing facilities.



24/40
PYREX
24/40
PYREX

• $18 million—improvements in distribution and manufacturing, and

• $12 million—other cost cutting and improvement programs.

The current fiscal year's $100 million budget for capital improvements is the largest in recent A&P history. In the fiscal year ended in February 1973, capital expenditures were $48,458,000. The average level for the six previous fiscal years was $62,983,000.

Clearly, A&P has been moving at a faster pace toward newer, larger, and more convenient stores and greater efficiency in the total food retailing and distribution system. But the importance of the general upgrading that is taking place throughout A&P has another dimension that must not be overlooked. By making stores more responsive to the needs of consumers, A&P is taking action that should contribute to further gains in sales volume.

80 New Stores

UNITED STATES

Alabama
Mobile, Alabama
3055 Dauphin Street

Rainbow City, Alabama
Rainbow Plaza
Shopping Center

Connecticut
Vernon, Connecticut
425 Talcottville Road

Wilton, Connecticut
Georgetown District
Routes 7 & 107

Delaware
New Castle, Delaware
Route 273 &
Churchman Road

Florida
New Port Richey, Florida
3000 U.S. Hway. #19 So.

Orange Park, Florida
1522 Park Avenue

Tallahassee, Florida
2415 N. Monroe Street

Tampa, Florida
4978 Busch Plaza

Georgia
Atlanta, Georgia
854 Oak Street, S.W.

Milledgeville, Georgia
431 North Main Street

Illinois
Cahokia, Illinois
1290 Camp Jackson Rd.

Pekin, Illinois
Route 9 & Township Rd.

Quincy, Illinois
E. Broadway & 36th St.

Rockford, Illinois
3600 North Main

Round Lake, Illinois
817 East Rollins Road

Indiana
Indianapolis, Indiana
5520 Madison Avenue

Indianapolis, Indiana
3827 Mitthoefer

Rensselaer, Indiana
412 South College

Iowa
Des Moines, Iowa
3405 South East 14th St.

Kansas
Emporia, Kansas
1614 Industrial Road

Kansas City, Kansas
6523 State Avenue

Louisiana
Baton Rouge, Louisiana
1819 Sherwood Forest

Plaquemine, Louisiana
1917 Highway 1 South

Winnfield, Louisiana
400 West Court

Maine
Bangor, Maine
700 Hogan Road

Maryland
Frostburg, Maryland
Route 36

Upper Marlboro, Md.
U.S. 301 & Md. Rte. 4

Michigan
Romeo Village, Mich.
66030 Van Dyke

Southfield, Michigan
25291 Telegraph Road

Walled Lake, Michigan
1154 E. West Maple Rd.

Missouri
Gladstone, Missouri
6469 North Prospect

Independence, Missouri
821 DaKota

Victorian era is updated in this new A&P store designed to blend into the Botany Village shopping complex at Clifton, N.J. This re-creation of 19th Century American shops in a 30-block urban rehabilitation project has attracted considerable attention from urban planners and developers.

New Jersey
Elizabeth, New Jersey
25 South Broad Street

Flanders, New Jersey
Route #206

New Milford, N.J.
830 River Road

Newton, New Jersey
(Hampton Township)
Route #206

Oakland, New Jersey
340 Ramapo Valley Rd.

Westmont, New Jersey
Cuthbert Road &
MacArthur Boulevard

New York
Amherst, New York
3040 Sheridan Drive

Brooklyn, New York
229 Knickerbocker Ave.

Brooklyn, New York
341–9th Street

Eltingville, New York
680 Arthur Kill Road

Jamestown, New York
20 Harrison Street

Miller Place, New York
Miller Place &
North Country Road

New York, New York
255 West 14th Street

Olean, N.Y.
502 North Union Street

Peekskill, New York
Crossroads Plaza

Syracuse, New York
621 East Adams

Yorktown Heights, N.Y.
380 Downing Drive

North Carolina
Hickory, North Carolina
2445 North Center Street

Tarboro, North Carolina
1600 Howard Avenue

Ohio
Bellefontaine, Ohio
878 East Sandusky Ave.

Boardman, Ohio
1140 Boardman-Poland
Road

Columbus, Ohio
2210 Morse Road

Middletown, Ohio
4400 Lewis Avenue

Pennsylvania
Ebensburg, Pa.
Jamesway Plaza
Route #22

Tamaqua, Pa.
Route #209

South Carolina
Manning, S.C.
106 Brooks Street

Tennessee
Lawrenceburg, Tenn.
N. Locust St. & Hway #43

Murfreesboro, Tenn.
726 Memorial Blvd.

Oak Ridge, Tennessee
1205 Oak Ridge Tpke.

Texas
Copperas Cove, Texas
Highway 190 & Ave. D

Dallas, Texas
2550 Red Bird Lane

Garland, Texas
1518 Northwest Hway.

Vermont
Essex Junction, Vermont
S/W Side Pearl Street

Virginia
Merrifield, Virginia
8103 Lee Highway

Pulaski, Virginia
1004 East Main Street

South Boston, Virginia
U.S. Route #501 North

Winchester, Virginia
400 Weems Lane

West Virginia
Charleston, W. Va.
6531 MacCorkle Ave.,
South East

CANADA

Ontario
Lindsay, Ontario
401 Kent Street

Mississauga, Ontario
86 Hurontario Street

Oshawa, Ontario
285 C Taunton Rd., E.

Stratford, Ontario
925 Ontario Street

Thornhill, Ontario
8190 Bayview Avenue

Welland, Ontario
980 East Main Street

Quebec
Drummondville, Que.
355 St. Joseph Blvd.

Noranda, Quebec
10–15th Street

St. Antoine des
Laurentides, Quebec
Blvd. des Laurentides

Beneficiaries: Customers & Shareholders

In virtually all major printed advertisements of food values available to shoppers at A&P, this updated statement of policy appears:

Important For You!

A&P Policy:

Always do what is honest and fair for every customer.

Raincheck:

If an advertised special is ever sold out ask the Manager for a Raincheck. It entitles you to the same item at the same price the following week. Or if you wish we'll give you a comparable item at the same price.

Guarantee:

A&P offers an unconditional moneyback guarantee. No matter what it is, no matter who makes it, if A&P sells it, A&P guarantees it.

Behind this straightforward statement there is a tremendous effort throughout the A&P system to satisfy the customer.

A&P processes and packages about 3,700 items for sale under such private labels as Eight O'Clock coffee, Jane Parker baked products, Ann Page prepared foods, Cap'n John fish products and A&P, Sultana, and Iona canned fruits and vegetables. Food production facilities range all the way from seasonal produce processing plants to the world's largest installation of its kind, 35 acres of plant space at Horseheads, New York, where a wide variety of A&P private label products are processed and shipped to warehouses and stores.

A&P applies its own intensive quality control tests to all of the items sold in A&P stores, regardless of which company may have been the manufacturer. These checks are made on a continuing basis in a large laboratory staffed by food specialists and located on the same floor as A&P's executive offices in New York.

Availability of products for sale in the right quantities, at the right place, and at the right time is another important element of A&P's massive customer service effort. Electronic data processing is bringing new efficiency to the distribution of over 25,000 tons of food and other merchandise A&P must move each working day from plants to warehouses to store shelves.

A&P continues to "open date" perishable food commodities—a practice of long standing throughout A&P. Fresh eggs, A&P bean coffees, Jane Parker bakery products, and A&P Super-Right processed meat items are only a few of the perishables that are marked with a "pull" date—a date that allows time for normal use of products at home after purchase. After this date, some products must be sold at reduced retail prices; others must be removed from sale.

Open dating, unit pricing, increasing the attractiveness and convenience of stores and making a special point of letting

"Availability of products . . . is another important element of A&P's massive customer service effort. Electronic data processing is bringing new efficiency to the distribution of over 25,000 tons of food and other merchandise A&P must move each working day from plants to warehouses to store shelves."

shoppers know their selection of A&P is appreciated are only a few of the steps that A&P's store managers and their staffs are taking to win and hold an increasing number of customers. Less apparent are the highly sophisticated store management duties that have to be performed so that A&P stores will continue to be known as the places "Where Economy Originates."

A&P has gained an impressive amount of momentum through A&P WEO, larger stores in better locations, improved distribution, strict adherence to quality standards and special attention to customer needs. There can be no letdown in this momentum. With these new strengths, A&P is now positioned to convert future challenges into achievements that will be of even greater importance to our customers and shareholders.

Officer group heads for meeting in Board Room. Officers (left to right) are William I. Walsh, executive vice president; M. Dean Potts, vice president-secretary; John J. Cairns, Jr., vice president-merchandising; and Harry C. Gillespie, vice president-treasurer.

Consolidated Balance Sheet

Assets (Dollars in thousands)	**February 24, 1973**	February 26, 1972
Current Assets:		
Cash	$ 67,309	$ 77,803
Short-term investments—at cost (approximates market)	7,250	24,712
Accounts receivable	26,540	20,962
Refundable Federal income taxes	51,263	9,900
Inventories	484,011	442,901
Prepaid expenses	19,063	16,154
Total current assets	655,436	592,432
Properties:		
Land	9,582	10,358
Buildings	76,713	85,678
Equipment	384,145	393,466
Total—at cost	470,440	489,502
Less accumulated depreciation	208,026	210,785
	262,414	278,717
Store fixtures and leasehold improvements, at amortized cost	95,682	95,420
Properties—net	358,096	374,137
Deferred Charges And Other Assets	7,287	6,365
Total	$1,020,819	$972,934

See Notes to Financial Statements

Liabilities And Stockholders' Equity (Dollars in thousands)	February 24, 1973	February 26, 1972
Current liabilities:		
Accounts payable	$ 239,129	$187,811
United States and foreign income taxes	1,570	2,255
Accrued salaries, wages and employee benefits	49,919	44,986
Accrued taxes, other than income taxes	12,943	10,704
Other accruals	22,438	17,018
Dividends payable	—	4,975
Total current liabilities	325,999	267,749
Long-term debt	55,000	—
Deferred income taxes—Net	25,511	24,918
Deferred income—Principally investment tax credit	13,530	13,674
Reserves	1,478	1,090
Stockholders' Equity:		
Preferred stock —no par value; authorized—3,000,000 shares; issued—none		
Common stock—$1 par value; authorized—40,000,000 shares; outstanding—24,875,224 shares	24,875	24,875
Capital surplus	377,153	377,153
Retained earnings	197,273	263,475
Stockholders' equity	599,301	665,503
Total	$1,020,819	$972,934

Statement of Consolidated Income and Retained Earnings

(Dollars in thousands, except per share figures)	52 Weeks to February 24, 1973 (Fiscal 1972)	52 Weeks to February 26, 1972 (Fiscal 1971)
Sales	$6,368,876	$5,508,508
Cost of merchandise sold	5,267,409	4,416,905
Gross margin	1,101,467	1,091,603
Store operating, general and administrative expense	1,205,778	1,072,107
Income (loss) from operations	(104,311)	19,496
Interest:		
Income—Primarily on temporary cash investments	1,286	2,124
Expense	(2,252)	(501)
Income (loss) before income taxes	(105,277)	21,119
Income taxes—Provision (credit)	(54,000)	6,500
Net income (loss)	(51,277)	14,619
Retained earnings—Beginning of year	263,475	278,085
Cash dividends	(14,925)	(29,229)
Retained earnings—End of year	$197,273	$ 263,475
Net income (loss) per common share	$(2.06)	$ .59
Cash dividends per common share	.60	1.175

See Notes to Financial Statements

ment of Changes in Consolidated Financial Position

s in thousands)	52 Weeks to February 24, 1973 (Fiscal 1972)	52 Weeks to February 26, 1972 (Fiscal 1971)
ce of funds:		
om operations:		
Net income (loss)	$ (51,277)	$ 14,619
Expenses (income) not requiring (providing) working capital:		
Depreciation and amortization	48,870	48,536
Deferred income taxes (non-current portion)	593	3,511
Deferred investment tax credit	(1,544)	(418)
Working capital provided from (used in) operations	(3,358)	66,248
Sale of property, equipment and fixtures	15,629	2,091
Proceeds from borrowings	55,000	—
Other	866	1,050
Total	68,137	69,389
Disposition of funds:		
Expenditures for property, equipment and fixtures	48,458	61,987
Cash dividends	14,925	29,229
Total	63,383	91,216
Increase (decrease) in working capital	4,754	(21,827)
Working capital—Beginning of year	324,683	346,510
Working capital—End of year	$329,437	$324,683
Increase (decrease) in components of working capital:		
Cash and short-term investments	$ (27,956)	$ 11,017
Accounts receivable	5,578	(8,485)
Refundable Federal income taxes	41,363	9,900
Inventories	41,110	(20,338)
Prepaid expenses	2,909	(2,617)
Net change in current assets	63,004	(10,523)
Accounts payable	51,318	4,543
United States and foreign income taxes	(685)	(4,070)
Accrued expenses	12,592	5,856
Dividends payable	(4,975)	4,975
Net change in current liabilities	58,250	11,304
Increase (decrease) in working capital	$ 4,754	$ (21,827)

See Notes to Financial Statements

Notes to Financial Statements

Summary of significant accounting policies

Accounting policies and methods of their application that significantly affect the determination of financial position and results of operations are as follows:

Principles of Consolidation—The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All significant intercompany accounts and transactions have been eliminated.

Foreign Exchange—The accounts of foreign subsidiaries, principally Canadian companies, have been translated into U.S. dollar equivalents at appropriate rates of exchange. Resulting unrealized translation gains, which were not material, have been credited to a reserve for foreign currency fluctuations in fiscal 1972 and to operations in fiscal 1971. The reserve for foreign currency fluctuations, amounting to $1,214,000 at February 24, 1973, is included in Reserves in the accompanying consolidated balance sheet.

Inventories—Inventories are stated at the lower of cost or market, with replacement cost generally being considered to represent market value. Cost is determined on the following bases: inventories in stores—average cost under the retail method; majority of remaining inventories—cost on a first-in, first-out basis.

Property—Property is stated at cost, except for store fixtures and leasehold improvements which are stated at amortized cost. Major renewals and betterments are capitalized, whereas maintenance and repairs are charged to expense. As group depreciation is generally utilized, gains or losses on disposition of assets are not recognized until all assets in the group are fully depreciated or disposed of. Fully depreciated property is written off against the related depreciation reserve.

Depreciation and Amortization—For financial reporting purposes, depreciation and amortization are provided generally on a straight-line basis over the periods of the estimated useful lives of the respective assets. The approximate annual rates are as follows: buildings—from 2% to 5%; store equipment—8%; other equipment—from 6⅔% to 10%; and store fixtures and leasehold improvements — generally from 10% to 12½%.

Income Taxes—The credit provision for taxes in the 1972 fiscal year represents the estimated allowable refund resulting from the carry-back of the year's net operating tax loss. Deferred taxes have been provided in recognition of timing differences between income tax and financial statement reporting for certain items, principally depreciation. Investment tax credits are being amortized over the estimated useful lives of the related assets. Income taxes have been provided on undistributed earnings of foreign subsidiaries not considered permanently invested. Taxes of approximately $7,000,000 have not been provided on permanently invested earnings.

Retirement Plans—Annual costs of the companies' retirement plans are based on actuarial cost methods as applied by independent consulting actuaries and consist of normal cost plus interest on prior service costs which are funded on a current basis.

Earnings (Loss) per Share—Net income (loss) per share c[illegible] mon stock is based c[illegible] weighted average numb[illegible] common shares outstandi[illegible] the respective fiscal years. S[illegible] options (common stock equ[illegible] lents) outstanding during the [illegible] spective fiscal years had no di[illegible] tive effect.

Reclassifications—Certain r[illegible] classifications have been mad[illegible] in amounts as previously re[illegible] ported in the financial statements for fiscal 1971 resulting in a reduction of working capital of $1,800,000.

Income taxes

The provision (credit) for United States and foreign income taxes is composed of the following amounts:

	Year Ended in February	
	1973	1972
Current	$(51,484,000)	$2,955,000
Deferred—net	(972,000)	3,963,000
Investment credit—deferred	580,000	1,855,000
Investment credit—amortized	(2,124,000)	(2,273,000)
	$(54,000,000)	$6,500,000

The Company has unused investment tax credits of approximately $2,300,000 from fiscal 1972. In addition, a Canadian subsidiary has a net operating loss carry-forward from fiscal 1972 of approximately $7,000,000. The tax benefit of such carry-forward will be recognized when realized.

Long-term debt

Long-term debt consists of notes payable pursuant to a four-bank commitment for borrowings up to $100,000,000 expiring September 1, 1975. Loans are to bear interest (6¼% at February 24, 1973) at ¼ of 1% over the banks' prime rate for ninety-day loans, and the unused portions of the commitment

bear interest at ½ of 1% a year. Borrowings are repayable commencing December 1975 to September 1979 in sixteen quarterly installments, aggregating 15% of the borrowings during the first year, and 20%, 30% and 35%, respectively, in succeeding years. Prepayments are permitted without penalty.

The related credit agreement, among other conditions, requires the maintenance, on a consolidated basis, of working capital of $250,000,000, a current ratio of 1.7 to 1, and tangible net worth (as defined) of $540,000,000. Additional restrictions provide that tangible net worth (approximately equivalent to stockholders' equity at February 24, 1973) may not decrease more than $30,000,000 during the first half, nor more than $10,000,000 during the second half of fiscal 1973; thereafter, more restrictive provisions prevail as to each succeeding fiscal quarter.

The agreement limits dividends (including other defined payments with respect to capital stock) to $5,000,000 a quarter through February 22, 1975. However, dividends may not be paid in any of the last three quarters of fiscal 1973 should a consolidated net loss have been incurred in the preceding quarter exceeding $6,000,000, $3,000,000 and $1,000,000, respectively; nor may any quarterly dividends in fiscal 1974 exceed the consolidated net income of the preceding quarter. Commencing fiscal 1975, cumulative dividends from that date may not exceed 50% of: cumulative net income since February 23, 1974 less dividend payments in fiscal 1974.

Retirement plans

Retirement benefits for substantially all full-time employees are provided by retirement plans of the companies and by plans administered jointly by management and unions, with the major portion of such employees being covered by joint plans. It is estimated by the companies' independent consulting actuaries that, as of December 31, 1972, the total assets of the companies' plans exceeded the actuarial liabilities for benefits accrued. The cost of all retirement plans (principally attributable to jointly administered plans) amounted to $21,313,000 and $18,091,000 for respective fiscal years 1972 and 1971.

Long-term leases

Most operations of the companies are conducted in leased premises. The unexpired basic terms of leases in force at February 24, 1973 range up to twenty years for store leases and thirty years for other leased facilities. The majority of the leases require payments in addition to the minimum rental for increases in property taxes on the leased premises, and certain of the store leases provide for increases in rentals when sales at the stores exceed specified levels. The rental cost of all leases for fiscal 1972, including real estate taxes and maintenance, amounted to approximately $113,000,000, of which $108,800,000 represented the minimum annual rental.

The minimum annual rental cost for the next five fiscal years of the approximately 4,100 leases with unexpired terms in excess of one year at February 24, 1973 are as follows: 1973—$109,965,000; 1974—$98,946,000; 1975—$86,107,000; 1976—$73,274,000; and 1977—$62,704,000. The following is a summary of aggregate minimum annual rentals by years of lease expirations:

Fiscal Years	Rentals
1973-1977	$430,996,000
1978-1982	227,221,000
1983-1987	105,119,000
Thereafter	5,358,000

Stock options

At February 24, 1973 and February 26, 1972, there were 595,370 and 618,490 shares, respectively, of unissued common stock reserved for issuance under the Company's 1960 and 1969 stock option plans which provide for the granting of options to executives and key employees for the purchase of common stock at fair market value on the date of grant. Options become exercisable immediately as to 20% of the optioned shares and thereafter as to an additional 20% of the optioned shares on each of the first through the fourth annual anniversaries of the grant date. Options granted prior to 1964 generally have a term of ten years; all other options expire in five years. Granting of options under the 1960 plan was terminated in April 1970.

No options were granted or exercised during the 1972 and 1971 fiscal years. At February 24, 1973, 285,900 shares were available for future grants and options were outstanding for 309,470 shares at prices ranging from $27.50 to $31.625 a share (aggregate option price of $8,903,000) of which options for 220,150 shares were exercisable. Options for 38,120 shares (aggregate option price of $1,301,000) and 39,460 shares (aggregate option price of $1,204,000) were terminated during the fiscal years 1972 and 1971.

Accountants' Opinion

Haskins & Sells
Certified Public Accountants

To the Board of Directors and Stockholders of
The Great Atlantic & Pacific Tea Company, Inc.:

We have examined the consolidated balance sheets of The Great Atlantic & Pacific Tea Company, Inc., and its subsidiary companies as of February 24, 1973 and February 26, 1972 and the related statements of consolidated income and retained earnings and of changes in consolidated financial position for the respective 52-week periods then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of the companies at the respective year ends and the results of their operations and the changes in their financial position for the respective 52-week periods then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Haskins + Sells

Two Broadway,
New York, New York
April 27, 1973

Six-Year Financial Review

(Dollars in thousands, except per share figures)

For the Year Ended in February	1973	1972	1971	1970(c)	1969	1968
Sales	**$6,368,876**	$5,508,508	$5,664,025	$5,753,692	$5,436,325	$5,458,824
Net income (loss)	**(51,277)**	14,619	50,129	53,302	45,247	55,897
Per share (a)	**(2.06)**	.59	2.02	2.15	1.82	2.25
Percent of sales	**(.81%)**	.27%	.89%	.93%	.83%	1.02%
Cash dividends	**14,925**	29,229	32,338	32,311	32,265	39,707
Per share	**.60**	1.175	1.30	1.30	1.30	1.60
Additions to property	**48,458**	61,987	60,062	63,259	61,415	63,357
Depreciation and amortization	**48,870**	48,536	50,079	50,464	50,648	49,856
At Year-end:						
Working capital	**$ 329,437**	$ 324,683	$ 346,510	$ 335,836	$ 317,331	$ 310,308
Current ratio	**2.01**	2.21	2.35	2.29	2.32	2.34
Stockholders' equity	**599,301**	665,503	680,112	662,321	640,492	627,366
Per share (b)	**24.09**	26.75	27.34	26.63	25.80	25.28
Shares of common stock outstanding	**24,875,224**	24,875,224	24,875,224	24,874,295	24,822,021	24,817,308
Approximate number of stockholders	**45,000**	53,400	47,900	52,700	53,400	52,300
Approximate number of employees	**123,600**	113,600	125,000	130,100	131,500	134,900
Number of stores	**3,940**	4,264	4,427	4,575	4,713	4,724
Total store area (square feet)	**57,590,000**	58,628,000	58,685,000	58,922,000	59,541,000	58,650,000

(a) Based on the weighted average number of common shares outstanding each year.

(b) Based on the number of shares outstanding at each year-end.

(c) 53 weeks; all other years contain 52 weeks.

Directors

Harold J. Berry
Director and Chairman, Investment Banking Committee; Merrill Lynch, Pierce, Fenner & Smith, Inc.

R. Manning Brown, Jr.
Chairman of the Board and Chief Executive Officer, New York Life Insurance Company

William Corbus
Vice Chairman of the Board of Directors

Donald Kirk David
Director of various business corporations

Harry C. Gillespie
Vice President and Treasurer

William J. Kane
Chairman of the Board of Directors and Chief Executive Officer

James S. Kroh
Vice President

Edward A. LePage
Vice Chairman of the Board of Directors

Robert F. Longacre
President

M. Dean Potts
Vice President and Secretary

John M. Schiff
General Partner; Kuhn, Loeb & Co.

Percy A. Smith
Vice President

Hobart Taylor, Jr.
Partner; Dawson, Quinn, Riddell Taylor & Davis

Edward J. Toner
Partner; Collins, Toner and Rusen

William I. Walsh
Executive Vice President

In Memoriam
Oliver C. Adams
Director Emeritus
1876-1972

Officers

William J. Kane
Chairman and Chief Executive Officer

William Corbus
Vice Chairman

Edward A. LePage
Vice Chairman

Robert F. Longacre
President

William I. Walsh
Executive Vice President

Harry C. Gillespie
Vice President and Treasurer

M. Dean Potts
Vice President and Secretary

John J. Cairns, Jr.
Vice President-Merchandising

William J. F. Dailey
Vice President

James S. Kroh
Vice President

Robert J. Murray
Vice President

Percy A. Smith
Vice President

Robert L. Spencer
Vice President

Divisional Vice Presidents and General Managers

E. M. Fay
Albany

G. F. Brown
Altoona

A. L. Hogewood
Atlanta

E. L. Nicholson
Baltimore

P. Kramer
Birmingham

F. A. Corrigan
Boston

L. S. Van Lenten
Bronx

L. E. Leeson
Buffalo

F. C. Kennedy
Canada

E. A. Simpson
Charlotte

E. E. Poyner
Chicago

R. V. Layden
Cleveland

D. H. Fields
Columbus

D. G. Richards
Dallas

C. G. McDade
Detroit

J. L. Madden
Indianapolis

N. J. Gallo
Jacksonville

T. G. Otto, Jr.
Kansas City

W. J. Vitulli
Long Island

R. H. Ruebenstahl
Louisville

R. W. Franzen
Milwaukee

J. P. Twill
Newark

J. Y. Brashear
New Orleans

T. F. Sheridan
Paterson

R. C. Jordan
Philadelphia

J. E. Flannery
Pittsburgh

R. H. Saquella
Richmond

R. E. Richards
St. Louis

F. G. Trenery
Scranton

W. C. Rosier
Seattle

R. F. Fennessey
Springfield

M. A. Young
Toledo

J. L. Long
A&P Coffee Division

S. D. Spivey
Ann Page Division

H. J. Gilb
National Bakery Division

A. G. Larson
National Dairy Division

C. A. Smith
National Produce Division

Nominating committee gathers with William J. Kane, (center), chairman. Committee includes Directors (left to right) Edward J. Toner, John M. Schiff, Donald Kirk David, Hobart Taylor, Jr., R. Manning Brown, Jr., and Harold J. Berry.

Executive Offices
420 Lexington Avenue
New York, N.Y. 10017

Transfer Agent
Morgan Guaranty Trust Company of New York
New York, N.Y.

Registrar
First National City Bank
New York, N.Y.
Common stock of the Company is traded on the New York Stock Exchange under the symbol "GAP."

Notice of Annual Meeting
The Annual Meeting of Stockholders will be held on Tuesday, June 19, 1973 at 10 a.m. (C.D.T.) at The Rivergate, No. 4 Canal Street, New Orleans, Louisiana.

The Great Atlantic & Pacific Tea Company, Inc., 420 Lexington Avenue, New York, N.Y. 10017

Designed by Johannes Regn, Incorporated